

**ANNUAL REPORT**

**COMMONWEALTH  
COMPETITION  
COUNCIL**

**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**COMMONWEALTH OF VIRGINIA  
RICHMOND  
1995**

## MEMBERS OF THE COMMONWEALTH COMPETITION COUNCIL

Appointed by the Governor	Mr. John B. Adams, Jr.	<i>Term ending</i> June 30, 1997
	Mr. Hudnall R. Croasdale	June 30, 1996
	Mr. Douglas W. Domenech	June 30, 1996
	Mr. James E. House	June 30, 1996
	The Honorable Michael E. Thomas	June 30, 1997
	Ms. Shirley J. Ybarra	June 30, 1997
Appointed by the Senate Committee on Privileges and Elections	Mr. Otis L. Brown, <i>Chairman</i>	June 30, 1998
	The Honorable Walter A. Stosch, <i>Vice Chairman</i>	Coincident with term in Senate
Appointed by the Speaker of the House of Delegates	John Watt Richardson, Esq.	June 30, 1998
	The Honorable V. Earl Dickinson	Coincident with term in House of Delegates

---

## STAFF

### Department of General Services

Ms. Peggy R. Robertson

### Department of Mental Health, Mental Retardation and Substance Abuse Services

Mr. Phil K. Bomersheim

### Department of Motor Vehicles

Mr. Alan L. Roth

The Council would like to express its appreciation to the following for their continued support

### Senate Committee Operations

Mr. Thomas C. Gilman

Ms. Patty J. Lung

Mr. Brian B. Taylor

### Division of Legislative Services

Mr. John A. Garka

## **TABLE OF CONTENTS**

<b>I.</b>	<b>Introduction and Summary.....</b>	<b>1</b>
<b>II.</b>	<b>History and Background.....</b>	<b>2</b>
<b>III.</b>	<b>Council Activities and Initiatives.....</b>	<b>3</b>
<b>IV.</b>	<b>Findings and Recommendations.....</b>	<b>5</b>

# **ANNUAL REPORT OF THE FINDINGS AND RECOMMENDATIONS OF THE COMMONWEALTH COMPETITION COUNCIL**

**To  
The Governor  
and the  
General Assembly of Virginia**

**Richmond, Virginia**

**December 1, 1995**

## **I. INTRODUCTION AND SUMMARY**

The Virginia Government Competition Act of 1995 became effective on July 1, 1995, thereby creating the Commonwealth Competition Council in the executive branch of government. The Council has many duties of which the development of an institutional framework for a statewide competitive program is paramount. The Act seeks to encourage innovation and competition within state government. The Council's role is to advocate, develop, and accelerate implementation of competition in the state government's delivery of services to the taxpayers. The bipartisan Council has four members from the executive branch, one member of the House of Delegates and one member of the Senate, and four private citizen members - two appointed by the General Assembly and two appointed by the Governor.

The Virginia Government Competition Act of 1995 (Act) is the product of the General Assembly's study of privatization issues and a series of recommendations of the Governor's Commission on Government Reform (Blue Ribbon Strike Force). The Act is a clear statement recognizing the importance of competition in providing both quality and cost-effective government services to the citizens of Virginia. It recognizes that privatization is a management tool for government and, like any tool, it is well suited to certain tasks and ill suited for other tasks. Careful analysis by the Council is required to determine the privatization potential of a program or activity. The Act also recognizes the importance of making the Council's services available to political subdivisions of the Commonwealth.

Typically, major privatization initiatives have been undertaken by state governments as a result of fiscal crisis. This is not currently the case in Virginia, however. The Commonwealth has a well reasoned general management approach designed to establish a system which uses feasibility studies and innovation to determine where competition can achieve quality services and reduce government costs without harming the public good.

# **ANNUAL REPORT OF THE FINDINGS AND RECOMMENDATIONS OF THE COMMONWEALTH COMPETITION COUNCIL**

**To  
The Governor  
and the  
General Assembly of Virginia**

**Richmond, Virginia**

**December 1, 1995**

## **I. INTRODUCTION AND SUMMARY**

The Virginia Government Competition Act of 1995 became effective on July 1, 1995, thereby creating the Commonwealth Competition Council in the executive branch of government. The Council has many duties of which the development of an institutional framework for a statewide competitive program is paramount. The Act seeks to encourage innovation and competition within state government. The Council's role is to advocate, develop, and accelerate implementation of competition in the state government's delivery of services to the taxpayers. The bipartisan Council has four members from the executive branch, one member of the House of Delegates and one member of the Senate, and four private citizen members - two appointed by the General Assembly and two appointed by the Governor.

The Virginia Government Competition Act of 1995 (Act) is the product of the General Assembly's study of privatization issues and a series of recommendations of the Governor's Commission on Government Reform (Blue Ribbon Strike Force). The Act is a clear statement recognizing the importance of competition in providing both quality and cost-effective government services to the citizens of Virginia. It recognizes that privatization is a management tool for government and, like any tool, it is well suited to certain tasks and ill suited for other tasks. Careful analysis by the Council is required to determine the privatization potential of a program or activity. The Act also recognizes the importance of making the Council's services available to political subdivisions of the Commonwealth.

Typically, major privatization initiatives have been undertaken by state governments as a result of fiscal crisis. This is not currently the case in Virginia, however. The Commonwealth has a well reasoned general management approach designed to establish a system which uses feasibility studies and innovation to determine where competition can achieve quality services and reduce government costs without harming the public good.

Although the Council has been in existence for less than six months, it is developing processes to conduct public-private performance and cost benefit analyses. Additionally, it has undertaken a review of the issues related to the impact of competition on state employees as well as the ethical issues of state employees going to work for private contractors.

The Commonwealth Competition Council is pleased to submit its first annual report pursuant to §9-343 of the Code of Virginia.

## II. HISTORY AND BACKGROUND

Enacted by Chapter 815 of the Virginia Acts of Assembly of the 1995 reconvened session, the Commonwealth Competition Council was created by the General Assembly to provide state agencies and institutions in the executive branch of government and interested political subdivisions policy direction in privatization efforts. The resolution of these guiding issues is central to the mission which the General Assembly has assigned to the Council. This Act culminated many years of discussion and consideration by the General Assembly to seek ways of providing cost effective, quality state government services to the taxpayers of Virginia. The importance of competition in the provision of government services was recognized in the passage of Senate Bill 994 during the 1995 session of the General Assembly. The work, however, began in 1993 with the passage of Senate Joint Resolution (SJR) No. 241 which expressed the sense of the General Assembly that privatizing certain functions of state government could permit its restructuring and result in increased economic activity in the private sector. This in turn would generate increased tax revenues and produce a "win-win" situation for state government and the private sector.

SJR 241 established a joint subcommittee to examine the functions of state government to determine which could be successfully privatized. Some specific opportunities included infrastructure projects, state motor vehicle fleet, highway maintenance, welfare job placement, solid waste facilities, parking facilities, social services case management, and travel logo signing program for interstate highways.

Due to the complexity of the topic, it was the consensus of the joint subcommittee that there were many issues which deserved further attention. This effort was continued in 1994 through SJR 17. The subcommittee was charged to continue examination of specific state government functions as well as other issues such as impediments to privatization and ways to minimize any adverse effect privatization may have on public employees.

The Joint Committee on Privatization expressed an interest in creating a formal structure to ensure that a permanent process would be established to encourage innovation and competition in the Commonwealth. They recommended the enactment of the Virginia Government Competition Act of 1995 and the establishment of the Commonwealth Competition Council. Additionally, the Joint Committee recommended enactment of the Public-Private Transportation Act of 1995 to provide a streamlined framework for attracting private capital to Virginia's transportation infrastructure and to capitalize on the success of the Dulles Toll Road Extension which was previously authorized by the General Assembly. The Joint Committee also recognized the need to amend the Corrections Private Management Act to allow for private sector prison financing on a design-build or design-build-operate basis in Virginia.

Concurrent with the 1994 legislative study actions on privatization, the Blue Ribbon Strike Force was studying all aspects of state government in response to Governor George Allen's Executive Order No. 1.

The Strike Force was charged with reinvigorating state government through developing recommendations for positive and constructive change. This included a complete examination of every aspect of the executive branch of government and recommending ways to improve the delivery of state services.

State government procurement and privatization was one of ten committees formed by the 60-person Strike Force. One of the final principles of the 10-month study recommended the development of partnerships between the Commonwealth and the private and nonprofit sectors, as well as the federal and local governments. This principle recognized that government cannot be all things to all people and, therefore, an institutional framework for a statewide competitive program was needed.

The Strike Force found that the state should actively seek creative partnerships to perform certain services. These partnerships fell within current relationships, such as in the area of contracting for portions of service delivery or re-thinking these relationships by using the private sector or nonprofit sector to deliver these services. These partnerships would allow the state to tap external sources of innovation, to realize tangible economies through competition and privatization as well as to establish a new standard for cost effective and efficient delivery of quality services. The Strike Force also recommended innovative programs to reduce any adverse impact of competition and privatization efforts on employees.

The Joint Subcommittee on Privatization and the Governor's Blue Ribbon Strike Force both recognized the importance of determining actual costs of delivering public services. It is impossible to know if government costs are competitive with those in the marketplace without knowing the true government cost of providing the service. Activity based accounting (ABA) assigns explicit costs to individual activities and measures costs vs. the efficiency and effectiveness of service output. It was recognized that ABA systems can provide an important tool for controlling costs and increasing productivity in the public sector. ABA brings to light costs which previously were hidden and allows managers to determine where they need to get costs down. ABA systems lead to more accurate cost comparisons between in-house and contracted services when government competes with the private sector for the service.

ABA can assist government managers in setting appropriate levels of user fees. The user fee that state government charges citizens and other government organizations for various services often fails to correspond to the true cost of providing the service. The result may be improper subsidy of a service that is thought to be user-fee funded.

The 1995 General Assembly recognized the importance of activity based accounting and directed the Department of the State Internal Auditor to complete a pilot project to study the implementation of activity based accounting in selected agencies and report its findings to the Governor by August 1995.

### **III. COUNCIL ACTIVITIES AND INITIATIVES**

The Council has held meetings on a monthly basis since August 1995. Its ten members were administered the oath of office by the Secretary of the Commonwealth pursuant to §49-3 of the Code of Virginia, and Otis Brown and Senator Walter Stosch were elected by the Council to serve as its first chairman and vice chairman, respectively.

At the first meeting, the Governor, in a letter to the Council, urged the Council to focus on measures that would assure the public of integrity and fairness of the competitive procurement process. He urged the

Council to examine and recommend measures to preserve the opportunity for departing state employees to use their expertise to compete in the private sector. He emphasized that fairness to state employees requires that they be allowed to work for the private sector when government activities in which they have been involved are transferred to the private sector as a result of competition. At the same time, he reminded that care must be taken to assure the citizens of Virginia that departing state employees will not accrue any undue entitlement in competition for those opportunities through the procurement process. The Governor told the Council that state government must successfully merge the highest ethical standards with the rights of individuals who leave state service to pursue opportunities in the private sector as a result of competition.

The Governor asked the Council to establish a Privatization Ethics Committee to consider these issues and to make recommendations for any needed changes in state law or procurement procedures. The Council acted on the request and established a committee consisting of bipartisan legislative representation as well as representation by the private sector and executive branch employees.

To date, the Council has received presentations from various state agencies and institutions on the results of their efforts to privatize and to become internally competitive. It heard the lessons these organizations have learned from privatizing various services that traditionally were provided by state government.

As some agencies and institutions recently have competed with the private sector for delivery of services, it was demonstrated that they have re-engineered the way they do business. These organizations have established a smaller, more productive workforce to perform the required tasks. Several examples were brought to the attention of the Council, including internal competition at the University of Virginia and the Department of Mental Health and Mental Retardation and Substance Abuse Services. Solicitations to privatize at the Department of Transportation (VDOT), the Department of Motor Vehicles, and the Department of General Services were also presented as successful efforts.

In an innovative privatization initiative, VDOT sought a commercial automotive parts company to set up "stores" at certain state transportation offices to stock repair parts and supplies. VDOT is the first transportation agency in the nation to try this concept, and it is already getting attention from other states. It is expected that this two-year test program will improve the efficiency and productivity of the agency operations. This includes reducing the amount of required paperwork and increasing the number of items available without special ordering.

The agency will monitor the project closely, comparing the cost of this service with the cost of its traditional warehousing procedures and evaluating potential gains in productivity and manpower flexibility. If the results are successful, the program could be expanded to serve other VDOT facilities.

Privatization recommendations of the Blue Ribbon Strike Force were reviewed with the Council. Numerous opportunities in competitive contracting, asset redeployment and public private partnerships were presented for consideration by the Council. Among these included debt collection, university hospitals, mental health facilities and child support collection.

The Council is interested in receiving suggestions from any source, public or private. Several presentations were made by private sector business representatives in support of the mission of the Council. The representatives welcomed the opportunity to make suggestions and to present ideas to the Council recommending consideration of designating a particular state service as an opportunity for competition.



The Council was concerned over the impact downsizing would have on the state work force whether from internal or external competition with the private sector. Work force culture issues will need to be addressed to include the "fear factor" resulting from potential elimination of an employee's position. Several options were discussed to provide some form of employment security and to minimize the actual or perceived impacts of downsizing from privatization. The Council was told that contact had been made with the Virginia Governmental Employees Association and that the Association had expressed interest in the process and welcomed the opportunity to work as a partner with state officials to address the employee issues.

It was noted that the current administration has made changes to the personnel policies and procedures guiding executive branch agencies and institutions. The changes addressed issues that appeared to be stumbling blocks to effective privatization of services. Agency and institutional managers now have more opportunities to work with displaced employees. They are permitted to find available positions from within their own agency as well as other agencies, thus giving impacted employees priority consideration for available positions for which they qualify.

## **IV. FINDINGS AND RECOMMENDATIONS**

In accordance with §9-343 of the Code of Virginia, the Commonwealth Competition Council makes its first annual report on findings and recommendations to the Governor and the General Assembly. Virginia is a cutting-edge state in promoting competition in government and fostering privatization opportunities. Indicative of this is the 1995 legislation in the area of competition and privatization and the pilot program to examine activity based accounting.

The Council found that the federal government is moving in the direction of supporting public-private partnerships in transportation and other areas, and Virginia, based on past actions, is well positioned to participate in the concepts developed at the federal level. Other states throughout the nation are calling upon the Commonwealth in an effort to benefit from Virginia's experiences and legislation in the areas of competition and privatization of state government functions.

Currently, there is no report mechanism for agencies and institutions to report their privatization efforts. The Council at this point has not formally addressed the desired methods of collecting this data. It is apparent from agencies and institutions appearing before the Council that significant strides have been made in privatization and competing services traditionally provided by state government in the past. Hence, the Council will have a base line of experience from which to proceed.

The Council has established a good working relationship with the Department of Planning and Budget who will continue to assist the Council in providing data submitted by the state agencies and institutions on their opportunities for privatization as a part of the budget process.

It is evident that the state will continue to rely on its greatest asset, the state employee. Many have worked hard for change and many will continue to work on re-thinking government activities in their own agencies. Virginia is fortunate to have its agencies staffed by people committed to their jobs, qualified, and eager for the opportunity to serve the owners of our state government, the taxpayer. The Council is concerned, however, over the impact that downsizing, as a result of competition and privatization, will have on displaced State employees and what provisions can, or should, be made for their continued employment.

The Council is aware also that state employees must be involved in the re-thinking process. This is not only because they know best how the services are being delivered but because they are a rich source of ideas and information to ensure quality while improving the cost-effective delivery of services to the public. Their involvement in the competition process will help allay fears and make them partners in finding solutions. Also, given the right employment environment, present employees of the Commonwealth can identify further opportunities for competition. Competition is an accepted way to cut costs and improve customer service. As we work for the betterment of Virginia and its citizens, all aspects must be encouraged to change their ways and create a competitive culture to the full benefit of the taxpayer of Virginia.

The Council is committed to identifying opportunities for quality service at less cost through competition. While being in existence only since July 1, 1995, the Commonwealth Competition Council has been actively pursuing its nine-point charge delineated in the Code of Virginia. The guiding issue of the Council is not privatization vs. in-house performance; rather, the issue is "competition." The Council will serve as the catalyst to spur competition which is a very important concept for state government today. It is one which will have a lasting impact on the long-term growth of state government, on the re-engineering processes that will change the way state government conducts its business, and one that will affect the size and complexity of the work force. Competition can increase efficiency in delivery of services, can help support new small and minority businesses, and can create startup and business expansion in the private sector.

Competition will be the key to the lasting improvement in government. It is critical to re-think the functions of government and to transition in thinking "government operation" to "who is the most efficient and effective" to be the service provider.

While no funding was provided for the Council, its staff and resources have been provided by other agencies. The Council has requested the Governor and the General Assembly, while recognizing the opportunities for success in the privatization and competition efforts, to provide funding to carry out the intentions of the Virginia Government Competition Act of 1995.

The Commonwealth Competition Council is diligent in its efforts to be a part of the new way of serving the Virginia taxpayer. During 1996 the Council will develop an institutional framework for a statewide competitive program to encourage innovation and competition within state government. The Council's work will result in recommending a system to encourage competition when it reduces government costs without harming the public, and one that will be innovative and serving its citizens. This will be one of the many opportunities of the Commonwealth Competition Council as it becomes a partner in guiding Virginia's state government into the 21st century.

Respectfully submitted,

Otis L. Brown, *Chairman*  
Walter A. Stosch, *Vice Chairman*  
John B. Adams, Jr.  
Hudnall R. Croasdale  
V. Earl Dickinson  
Douglas W. Domenech  
James E. House  
John Watt Richardson  
Michael E. Thomas  
Shirley J. Ybarra

For additional information

Commonwealth Competition Council

• P. O. Box 1475 • Richmond, Virginia 23212 • (804) 786-0240 • FAX (804) 786-1594